MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns Aaa to West Des Moines, IA's $14.5M GO Bonds, Ser. 2014A

Global Credit Research - 22 Jul 2014

Maintains Aaa on $38.9M of Moody's rated GO debt post-sale

WEST DES MOINES (CITY OF) IA
Cities (including Towns, Villages and Townships)
IA

Moody's Rating

ISSUE	RATING
General Obligation Bonds, Series 2014A	Aaa

Sale Amount	$14,500,000
Expected Sale Date	08/11/14
Rating Description	General Obligation

Moody's Outlook NOO

Opinion

NEW YORK, July 22, 2014 --Moody's Investors Service has assigned a Aaa rating to the city of West Des Moines' (IA) $14.5 million General Obligation Bonds, Series 2014A. The bonds are secured by the city's general obligation unlimited tax (GOULT) pledge that benefits from a dedicated levy unlimited as to rate or amount. A portion of the proceeds of the Series 2014A bonds will be used to current refund $1.2 million of the city's outstanding Series 2007A bonds for estimated net present value savings of 5.8% of par. The remainder of the bond proceeds will be used to finance various capital improvements within the city. Concurrently, Moody's maintains the Aaa rating on the city's Moody's-rated GOULT debt. Post sale, the city will have $84.7 million of GOULT debt outstanding, of which $38.9 million is rated by Moody's.

SUMMARY RATING RATIONALE

The Aaa rating reflects the city's sizeable tax base experiencing ongoing growth and diversification; solid financial operations bolstered by substantial General Fund reserves; above average debt position with rapid principal amortization; and moderate exposure to unfunded pension liabilities.

STRENGTHS

- Proximity to Des Moines (Aa2) and role as a commercial and retail hub in central Iowa (Aaa stable)

- Stable financial operations characterized by healthy reserves

CHALLENGES

- Concentration among top ten taxpayers (17% of taxable valuation)

- Above average debt burden with some additional debt plans

DETAILED CREDIT DISCUSSION

STABLE TAX BASE WITH SOME ECONOMIC CONCENTRATION

The city's tax base is expected to continue to remain stable given its advantageous location along the western border of Des Moines and the ongoing expansion of its commercial and retail sector. The city's large $6.2 billion tax base has experienced steady growth, increasing by 1.2% on average over the past 5 years. The city's full value declined by 1% in 2011 as a result of the recent recession, but has since returned to growth, increasing by 2.2% in the most recent year.

The city is approximately half residential (51% of taxable value) and half commercial and industrial (49%). The city is home to sizable corporate offices, including Wells Fargo & Company (A2 stable; 8,200 employees), Hy-Vee Food stores (2,150 employees) and Athene USA (1,362 employees). Wells Fargo reduced approximately 200 employees from its Home Mortgage division as a result of the recent downturn in housing nationwide; however, the city reports that Wells Fargo has diversified its business and increased the total number of employees in West Des Moines. The city is also undergoing significant development related to technology and data centers. Microsoft (Aaa stable) recently completed Phase 2 of its three phase Project Mountain data center, which is estimated to increase the city's taxable valuation by a total of $70 million. In February, Microsoft also announced plans for a second data center, named Project Alluvion, estimated to be a $1.1 billion investment over the next five to seven years. Project Mountain and Project Alluvion combined are reportedly the largest investment by a single company in the state's history. The data centers will not employ a significant number of people after completion, but will provide hundreds of jobs during the construction and add a significant amount of taxable valuation to the city. The city has a development agreement in place for the first phase of Project Mountain and is currently working on agreements for the subsequent projects. The city also reports additional commercial development is underway, including three new hotels and other retail developments.

The city exhibits some economic concentration in its tax base with the top ten taxpayers making up 17% of assessed valuation. Jordan Creek Town Center, a high end shopping mall managed by General Growth Properties, Inc., is the largest taxpayer at 4.9% of taxable value. City officials report the mall has very few vacancies and attracts shoppers from around the state. Wells Fargo also makes up a sizable 4.8% of the tax base, followed by Valley West Mall at 1.5%. We expect the city's economic concentration may increase somewhat as the Microsoft developments are completed, but the level of concentration may be mitigated by the city's other tax base growth as well as the stability of Microsoft.

The city's healthy economy is supported by income levels that trend well above the state and national medians, with median family income at 132% of the U.S., according to 2008-2012 American Community Survey estimates. Favorably, the Polk County (Aaa stable) unemployment rate as of May 2014 was 3.2%, far below both the state (4.1%) and national (6.1%) rates during the same time period.

HEALTHY RESERVE LEVELS AND STRONG FISCAL MANAGEMENT

Despite a budgeted use of reserves for one-time projects in fiscals 2014 and 2015, the city's financial position is expected to remain strong given healthy reserve levels and conservative budgeting practices. The city has maintained General Fund reserve levels well above its policy of 25% of expenditures in unassigned fund balance for at least the last five fiscal years. In fiscal 2013, the city ended the year with a $2.4 million operating surplus, bringing the General Fund balance to $24.8 million, or a substantial 49% of revenues. Officials report that hotel/motel, license and permit revenues as well as health insurance expenditures had favorable variances to budget that led to the surplus. In fiscal 2014, the city budgeted to use $3.9 million of reserves for capital projects and to establish an internal service fund for technology replacement. Although fiscal 2014 financial statements are not yet available, officials estimate that the year ended with a more modest $240,000 deficit, due to conservative budgeting of both revenues and expenditures, bringing the General Fund balance to $24.6 million. For fiscal 2015, the city has budgeted to use $5 million of General Fund reserves for one time projects, which would bring the General Fund balance down to $19.6 million, or a still healthy 40% of revenues. The city expects to use $3.9 million for capital projects, $830,000 for a special census, and $600,000 for emerald ash borer control.

Although the city currently levies the full $8.10 for operations and utilizes the $0.27 emergency levy, it retains financial flexibility through its ability to levy separately for employee benefits and pensions, which together could have generated an additional $8.5 million in fiscal 2015. We believe that the city's sizeable General Fund reserves, coupled with favorable financial policies and strong management will contribute to solid financial operations over the medium term.

ABOVE AVERAGE DEBT POSITION WITH RAPID PRINCIPAL AMORTIZATION; ADDITIONAL BORROWING ANTICIPATED

We expect the city's average debt burden to remain manageable due to anticipated continued tax base stability and rapid principal amortization. The city's overall debt burden is above average at 3.3% of full value, largely reflecting borrowing by the Waukee Community School District (Aa2). The city's direct debt burden is 1.4% of full value. The city expects to repay approximately 40% of its outstanding debt with tax increment financing (TIF) revenue, which somewhat reduces any pressure on the general tax levy. Management reports that its goal is to maintain its debt service levy at the same rate of $2.00 per taxable $1,000 going forward. Debt service expenditures as a percent of operating expenses is somewhat elevated at 24.5% in fiscal 2013. The above average fixed costs reflect the city's rapid principal amortization with 93.2% of principal retired within ten years. Going forward, the city expects to issue approximately $7.5 million annually for capital improvements. The city also has preliminary plans to issue debt in fiscals 2015 through 2017 related to economic development initiatives to be paid by TIF revenues. The projects have not been finalized, but management reports that it may issue up to $65 million over three years. Depending on tax base growth and the timing of the debt, this additional debt could substantially increase the city's debt burden and will be a focus of future credit reviews. All of the city's outstanding debt is fixed rate, and the city is not a party to any interest rate swap agreements.

MODERATE EXPOSURE TO UNFUNDED PENSION LIABILITIES

The city's fiscal 2013 adjusted net pension liability (ANPL) is $92.2 million, equivalent to 1.59% of full valuation and 1.37 times operating revenue. The ANPL is based upon our allocation of the reported unfunded liabilities of two multi-employer cost-sharing pension plans to which the city contributes as well as our methodology of adjusting reported pension information. City employees are members of the Iowa Public Employees Retirement System (IPERS) and the Municipal Fire and Police Retirement System of Iowa (MFPRSI). The city's fiscal 2013 contribution to the two plans was $3.6 million, or 5.5% of operating expenditures. We allocated the reported unfunded liabilities of the plans to the city based on its share of total public employer contributions. The city's share of reported unfunded pension liabilities allocated by Moody's is an estimated $35.1 million in fiscal 2013.

WHAT COULD CHANGE THE RATING DOWN:

- Substantial erosion in the city's tax base and demographic profile

- Material reduction in General Fund reserves and liquidity

- Significant increase in the city's debt burden

KEY STATISTICS:

Tax Base Size - Fiscal 2013 Full Value: $6.2 billion

Full Value Per Capita: $109,962

Socioeconomic Indices - MFI: 131.9% of the US

Fiscal 2013 Available Operating Funds Balance: 34.7% of revenues

5-Year Dollar Change in Available Operating Fund Balance as % of Revenues: 17.5%

Fiscal 2013 Operating Funds Cash Balance: 33.6% of revenues

5-Year Dollar Change in Cash Balance as % of Revenues: 15.1%

Institutional Framework: Aa

Operating History: 5-Year Average of Operating Revenues / Operating Expenditures: 1.03x

Net Direct Debt / Full Value: 1.36%

Net Direct Debt / Operating Revenues: 1.18x

3-Year Average of Moody's Adjusted Net Pension Liability / Full Value: 1.43%

3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues: 1.24x

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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